



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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CONTACT: Dan Newman
(916) 653-4052

NATIONAL CORPORATE REFORM LEADERS SPEAK OUT AGAINST SCHWARZENEGGER'S PENSION PRIVATIZATION PLAN

*California Treasurer Phil Angelides, New York Comptroller Alan Hevesi,
North Carolina Treasurer Richard Moore, Corporate Governance Expert Nell Minow
Join Other State and Local Financial and Pension Fund Officials to Criticize Plan as
Part of a "Broad Counter-Attack Against Corporate Reform"*

SACRAMENTO, CA – National corporate reform leaders, led by California State Treasurer Phil Angelides, New York State Comptroller Alan Hevesi, North Carolina State Treasurer Richard Moore, noted corporate governance expert Nell Minow, and other state and local financial and pension fund officials from across the nation today criticized Governor Schwarzenegger's plan to privatize California's public pension funds as part of a "broad counter-attack" against the corporate reform movement.

Today's statement by the corporate reform leaders comes on the heels of Governor Schwarzenegger's acknowledgment that his plan is part of "a national battle" in which he is counting on "national money coming in to help us fight the battle."

In addition to Angelides, Hevesi, Moore, and Minow, the group of state and local financial and pension fund officials included Randall Edwards, Oregon State Treasurer; Rob Feckner, California Public Employees' Retirement System (CalPERS) acting president; George Philip, Executive Director of the New York State Teachers' Retirement System; Edward M. Smith, Chairman of the Illinois State Board of Investment; and William C. Thompson, Jr., New York City Comptroller. The officials speaking out today come from funds that invest well over a half trillion dollars in our financial markets.

Just three years after scandals at WorldCom, Enron and a host of other companies cost taxpayers, pensioners and investors trillions of dollars, corporate interests and their allies have mounted a nationwide attack on the corporate reform movement. Big business interests have opposed several key reforms at the Securities and Exchange Commission, such as granting voting rights to shareholders. In California, Governor Schwarzenegger's proposal to replace State pension plans with individual 401(k)-style private accounts represents the latest front in this broad, national effort.

“Public pension funds have taken a leading role in restoring honesty, integrity, and openness to our nation’s financial markets after corporate scandals shook the very foundations of our financial institutions, damaged our economy, and harmed millions of Americans,” said Angelides. “Now Governor Schwarzenegger wants to break these powerful voices of corporate reform into literally millions of pieces, cutting people loose to fend for themselves in the marketplace.”

Nell Minow, editor at The Corporate Library and a noted corporate governance expert, said, “As the Enron and WorldCom settlements show, public pension funds now play an essential monitoring role that sustains and gives credibility to our capital markets. The loss of that critical oversight would be devastating.”

While pension costs are certainly a legitimate subject of public debate, the group pointed that even members of the Governor's own administration admit that the system is currently sound. In fact, the Governor's proposed reform would actually cost the State money for years to come. For example, at CalSTRS alone, the plan would cost the State and local school districts \$5.9 billion over the first ten years.

Recent news reports have established that Schwarzenegger’s plan is part of the national agenda of corporate allies such as Grover Norquist, President of Americans for Tax Reform, and Stephen Moore, president of the Free Enterprise Fund. Schwarzenegger, Norquist and Moore have all stated that they consider dismantling California’s public pension funds to be a key battle in their national assault on pension funds.

Norquist, best known for advocating “starving the beast” of government until it is “small enough to drown in the bathtub,” has spoken unabashedly of a national movement to destroy the power of public pension funds: “Just 115 people control \$1 trillion in these funds... We want to take that power and destroy it.”

Stephen Moore who rails against “the witch-hunt against corporate excess and corporate accounting scandals, all the rage on the left these days,” says that if Schwarzenegger succeeds in California, the nation is likely to follow.

Another prominent supporter of Governor Schwarzenegger’s proposal, the Howard Jarvis Taxpayers Association’s Jon Coupal, says he wants to stop public pension funds from “straying into corporate governance.”

The corporate reform leaders said Schwarzenegger’s plan aims to strip the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS), the nation’s largest and third largest pension plans, of their ability to use their clout in the marketplace, what Angelides has termed the “Power of the Purse.” CalPERS and CalSTRS have used the \$300 billion in combined assets they hold on behalf of over two million Californian police officers, firefighters, nurses, teachers and their families, to advocate for reforms that protect taxpayers, pensioners and shareholders. Because the funds have joined with other institutional investors from across the country to effectively exercise their power – fighting to curb excessive

executive pay, strengthen accounting standards, increase transparency, and open corporate board elections to shareholders – they now find themselves targets of those opposed to reform.

“There are two issues here. First is the attempt to reduce benefits and lower the standard of living of retirees through attacks on Social Security and public pension funds, which now protect them from poverty. Second is the attempt to destroy one of the strongest forces for reform in corporate America,” New York State Comptroller Alan Hevesi said. “The risk to the American economy is not from reform-minded public pension funds. It is from corrupt corporate managers who imposed a huge cost on every American. Because of the corporate scandals, investors lost billions, retirees lost pensions, workers lost jobs and taxpayers paid higher taxes and faced cuts in services.”

“This is an attempt to strip the corporate governance movement of a powerful weapon in the battle for greater corporate accountability,” said North Carolina Treasurer Richard Moore, the author of both the investment protection principles and the mutual fund protection principles that have been adopted by pension fund managers across the country. “Public pension plans have leveraged their influence on Wall Street to produce changes that benefit all investors – big and small. We have been successful because we are right – if they want a fight, bring it on.”

“Despite the Governor’s claims, his pension privatization proposal won’t save money for California. This proposal is merely the latest attempt by corporate interests and their allies to silence CalPERS’ ability to advocate for reform,” said Rob Feckner, acting president of CalPERS.

“The Governor likes to talk about ‘reform’ – such as ‘reforming’ the retirement plans of teachers and law enforcement officers – but Governor Schwarzenegger never utters a word about the real reform that is needed in the corporate boardrooms – despite that fact that California’s pension plans lost more than \$1 billion due to the fraud at Enron and WorldCom alone,” said Angelides.

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[Click here](#) for additional information: “Governor Schwarzenegger’s Pension Privatization Plan is Part of a Broad Counter-Attack Against Corporate Reform”

OFFICE OF THE TREASURER

P. O. BOX 942809
SACRAMENTO, CA 94209-0001



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CONTACT: Dan Newman
(916) 653-4052

**GOVERNOR SCHWARZENEGGER'S PENSION PRIVATIZATION PLAN IS PART
OF A BROAD COUNTER-ATTACK AGAINST CORPORATE REFORM**

*Grover Norquist, Stephen Moore and Governor See California as
National Battleground to Weaken Pension Funds' "Power of the Purse"*

Public Pension Funds Use of "The Power of the Purse"

In the wake of the greatest wave of corporate scandals in this nation's history, public pension funds – entrusted with the assets of millions of working families across the country – have led the movement to clean up corporate boardrooms. Standing up for ordinary taxpayers, pensioners, and shareholders, the funds have used their shareholder clout – termed the "power of the purse" by California Treasurer Angelides – to combat corporate fraud and abuse, bringing back honesty and openness to our financial markets and restoring the investor confidence so critical to our nation's economic prosperity.

Like ordinary investors across the country, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the nation's largest and third largest pension plans, suffered huge losses due to corporate malfeasance, deception and fraud. The scandals at Enron and WorldCom alone cost CalPERS and CalSTRS – and the more than 2 million police officers, firefighters, nurses, and other public servants who count on the funds to protect their retirement savings – more than \$1 billion.

To protect against the losses caused by corporate fraud, California's pension funds have been key leaders in the fight for reform. The pension funds have exercised their marketplace strength to push for reforms such as curbing excessive executive pay, strengthening accounting standards, increasing transparency, and opening corporate board elections to shareholders.

Governor Schwarzenegger's Pension Privatization Plan

Now, just three years after scandals rocked Wall Street and cost investors, pensioners and taxpayers trillions, even as former WorldCom CEO Bernard Ebbers, and former Tyco CEO Dennis Kozlowski face trial, reformers face a concerted counter-attack from corporate interests and their allies.

In California, Governor Schwarzenegger has proposed privatizing California's pension plans and replacing them with individual 401(k)-style private accounts. This proposal comes less than two months after the Governor's representative cast her vote to remove CalPERS' reform-minded president, Sean Harrigan. Now Governor Schwarzenegger is attempting to drain the power of the pension plans themselves.

In making his case for privatizing California's pension system, Governor Schwarzenegger echoes the rhetoric of those lobbying to privatize Social Security, claiming that California's pension plans are a "looming train wreck."¹ Despite the Governor's use of alarmist rhetoric to justify his proposal, Schwarzenegger's proposed "reform" would actually cost the State money for years to come. For example, at CalSTRS alone, the plan would cost the State and local school districts \$5.9 billion over the first ten years.

While pension costs are certainly a legitimate subject of public debate, even members of the Governor's own administration admit that the system is currently sound.² The Governor's office has failed to point out that the majority of the State's recent increases in pension costs are actually due to the largest sustained losses in the stock market since the Great Depression, fueled in good part by the greatest wave of corporate scandal in our nation's history.

Privatization Plan is Part of National Anti-Reform Efforts

What then is the Governor's actual motivation for trying to disassemble these pension plans? The truth is that Schwarzenegger's pension proposal is a piece of the broader effort, in California and across the nation, to silence the voice of reform and weaken the ability of shareholders to hold corporate directors and managers accountable. Governor Schwarzenegger's proposal will cut people loose to fend for themselves in the marketplace by breaking California's pension funds' powerful voice of corporate reform into literally millions of pieces.

Recent news reports have detailed how "the impetus for Mr. Schwarzenegger's plan comes from some of the same antitax advocates, free-market enthusiasts and Wall Street interests pushing President Bush's Social Security initiative."³ Prominent in this group are Grover Norquist, the president of Americans for Tax Reform, and Stephen Moore, formerly of Club for Growth, now president of the Free Enterprise Fund.

Grover Norquist and Stephen Moore have made their intentions clear. Norquist is best known for his "starve the beast" philosophy – in which the public sector is a beast that should be starved until it is "small enough to drown in the bathtub." Indeed, Schwarzenegger has begun to use language similar to Norquist's in justifying his agenda:

"We don't want to feed the monster. We don't want to feed the state - the public sector - and starve the private sector. We want to feed the private sector and starve the public sector."⁴

Norquist has acknowledged the power held by pension plans, and has spoken openly of wanting to destroy that power:

... there's the matter of all those state and local pension plans. State by state, he's planning to launch a campaign to dismantle and privatize state pension plans and their trillions of dollars of public funds held as investments for retirees. "Just

¹ Schwarzenegger Aims at State Pension System" by John Broder, *New York Times*, January 23, 2005

² *Ibid*

³ *Ibid*.

⁴ "Beware of Monsters, Governor wants to starve the public sector" Editorial, *Sacramento Bee*, January 19, 2005

115 people control \$1 trillion in these funds,” [Norquist] says. **“We want to take that power and destroy it.”**⁵

Not surprisingly, Norquist is a strong supporter of Governor Schwarzenegger’s pension proposal, calling it “one of our highest priorities” and citing it as a model approach in a letter to Republicans across the country.⁶

Stephen Moore is another influential national figure within the anti-reform movement. He is the author of columns such as “What’s Wrong with Insider Trading?” in which he criticizes “the witch-hunt against corporate excess and corporate accounting scandals, all the rage on the left these days.”⁷

Moore, who served as an economic advisor to Governor Schwarzenegger, acknowledged that the Governor’s proposal is part of a national plan to dismantle state pension systems, saying that if Schwarzenegger succeeds in California “the nation is likely to follow.”⁸ Moore and Schwarzenegger see the California fight as setting the stage for a broad national assault on pension funds. As the Governor himself acknowledges, “This is a national battle...”⁹ so there will be “national money coming in to help us fight the battle.”¹⁰

Another prominent supporter of Governor Schwarzenegger’s proposal is the Howard Jarvis Taxpayers Association. The organization’s president, Jon Coupal, is explicit in explaining that his interest in pension reform is to stop shareholders – the actual owners of the companies – from “straying” where he believes they don’t belong:

“There is an overriding issue of what happens when you have these superlarge retirement systems straying from bottom line of the benefit of members and **straying into corporate governance...**”¹¹

It is clear that Governor Schwarzenegger’s pension privatization plan is part of a broad effort to cripple the public pensions’ ability to push for corporate reform that protects pensioners and taxpayers.

5 “Grover Norquist: ‘Field Marshal’ of the Bush Plan” by Robert Dreyfuss, *The Nation*, May 14, 2001, emphasis added

6 “Governor’s allies put labor on the defensive, Unions scramble to protect pensions, teachers’ salaries” by Mark Martin, *San Francisco Chronicle*, January 12, 2005

7 “What’s Wrong with Insider Trading?” by Stephen Moore, *National Review*, March 9, 2004

8 “Schwarzenegger Aims at State Pension System” by John Broder, *New York Times*, January 23, 2005

9 “California Missions; Governor displays unshakable faith that he alone can achieve state reforms” by Jim Hinch, *Orange County Register*, January 25, 2005

10 “Governor Seeks Outside Donors for Campaigns” by Robert Salladay and Peter Nicholas, *Los Angeles Times*, January 29, 2005

11 Broder, **emphasis added**